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CENTRAL INTELLIGENCE AGENCY  
Office of the Chief, Economic Research  
Office of Research and Reports

19 April 1956  
(Date)

MEMORANDUM FOR: Chief, Economic Research  
ATTENTION: Chief, Planning and Review Staff  
SUBJECT: Transmission of Draft Report, Ch/L Project No. 42.1055

Title: Hungarian Financial Status

25X1A

Author: [REDACTED]

ENCLOSURE: Subject draft report (Original and two copies)

1. Enclosure is forwarded herewith for review and publication. Recommended category:  
☐ IM ☐ RR ☐ PR ☐ RA ☒ Other.
2. Statement of coordination attached, with initials of individuals and their units.  
None
3. Arrangements for maps and/or graphics through St/PB with Cartographic Division.  
None
4. Recommended Dissemination: ☐ Standard ☒ Requester ☐ NCPC  
☐ EIC Subcommittee ☐ Other, foreign, etc. (attach list).
5. Has information on US military end products or manpower been used? Explain.  
No.
6. Has direct use been made of the intelligence or information of another agency.  
Yes
7. Have all sources been considered in the preparation of this report?  
Yes
8. Man-hours utilized by this division in producing this report: 20  
Branches of other CRR Divisions contributing to this report, and (if available)  
man-hours utilized by each: \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_.
9. Estimate Cards: ☐ Have been submitted to Central Economic Estimates File.  
☐ Are attached.
10. No new estimates in report  
The analyst responsible for consultation is:  
25X1A [REDACTED] S/TF 8182  
(Name) (Branch) (Extension)
11. Gaps in Intelligence procedures of the Analysts' Manual Notice (check one)
  - a. Intelligence information gaps disclosed in this project are covered specifically in existing collection requirements. ☒
  - b. Those intelligence information gaps disclosed in this study which were not previously filed as requirements have been transmitted to St/I/R in the form of a requirements memorandum, a copy of which is attached. ☐
  - c. Notice is inapplicable to this project. ☐
12. Comments:

Chief, \_\_\_\_\_ Division

\* The classification of this transmittal sheet will be changed to conform to the classification of the draft report which it covers.

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## HUNGARIAN FINANCIAL STATUS

1P-439

The Hungarian economy is at present in critical financial straits due to pressing obligations, probably in excess of \$25 billion, which must be met in Western exchange combined with a necessity for maintaining raw material imports from the West. Hungary's chronic shortage of Western exchange appears to have reached crisis proportions, not through sudden recent developments, but as the result of a continuing deficit on commodity trade and other current account items with the West.

This cumulative deficit has been financed at increasing expense through a succession of essentially short-term commercial credits which now constitute a vicious circle. Even if Hungarian policymakers should succeed in bringing current exports to the West into line with imports, their position will still be that of the over-extended installment buyer whose income is so committed to pay for past expenditures that cash for current living expenses can be obtained only at high cost from the personal finance company. Nor is there evidence that the commodity deficit is being eliminated; on the contrary, recent press reports acknowledge both the underfulfillment of 1955 export plans to the capitalist countries and lack of improvement in the first two months of 1956. <sup>2/</sup>

a. Financial reliance on the USSR and other members of the Bloc

Hungary has heavy net financial obligations within the Bloc and especially with the USSR, most of which are payable in fixed commodity installments. With two apparent exceptions, this indebtedness does not,

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therefore, entail a direct drain upon Hungarian exchange reserves. If current annual payments were to be met on schedule, however, a substantial surplus on commodity trade with the USSR would be required, thus restricting the possibility of exports elsewhere.

Currently outstanding intra-Bloc liabilities apparently total at least \$258.9 million and may exceed \$345.4 million. Soviet assistance in Hungary's immediate financial crisis vis-a-vis the West appears limited at present to an extension of time regarding some of these obligations and a partial remission of others. <sup>2/</sup>

Obligations within the Bloc may be summarized as follows:

Currently Outstanding Intra-Bloc Obligations\*

(in millions of U.S. dollars)\*\*

<u>Source of Obligation</u>	<u>Original terms</u>	<u>Amount outstanding</u>	<u>Present status</u>
Sequence of Soviet loans of military equipment, beginning in 1949. <sup>3/</sup>	Repayable in goods by 1965. Initial loan reported to bear interest at 2.75%.	121.8	Current payments apparently due on schedule.
1951 Czech loan to develop aluminum-power complex. <sup>4/</sup>	\$20-40 million, repayable in goods, interest: 1.5 - 2%.	7.3	Outstanding balance overdue since Dec 1954.
1953 Soviet loan of 10,000 Kg. gold. <sup>5/</sup>	\$12.3 million repayable in goods at 2%.	12.3	Due 31 Dec 55, extension sought.

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<u>Source of Obligation</u>	<u>Original terms</u>	<u>Amount outstanding</u>	<u>Present status</u>
1954 Soviet loan of vanadium, cobalt and chrome. <u>6/</u>	\$25 million repay- able in goods at 25,	25.0	Due date unknown.
Oct 54 Hungarian agreement to pur- chase Soviet share of 5 Joint Companies. <u>1/</u>	Probably \$180 million, repayable in specified goods over 8 years.	90.0 to 170.9	Soviets may have granted Hungarian request to cancel one-half of orig- inally agreed purchase price.
June 55 Soviet loan of \$2.5 million in cash. <u>8/</u>	Repayable in dollars by 30 November 1955.	2.5	Extended to 30 November 1956.
Feb 56 Chinese line of credit for 1.2 M. <u>2/</u>	_____	Up to 5.6 (amount currently drawn unknown)	Indefinite duration but subject to can- cellation on 3 months notice.
		\$258.9 - \$345.4	

\* List not known to be exhaustive.

\*\* Forint loans converted at rate of 11.74 forints/dollar; ruble loans  
at four rubles/dollar.

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Against these obligations, a small volume of intra-Bloc assets has been reported. Burs totalling less than \$7 million are due from Bulgaria (\$5.4 million) and Albania (\$1.2 million). <sup>10/</sup> Details of this indebtedness are unknown. Also reported is a wheat loan to Czechoslovakia (amount unknown) arranged by COM in 1955 and reported to bear interest at 10 percent, repayable in capital goods. <sup>11/</sup>

b. Status of Hungarian gold reserve

The last available official statement in early 1950 placed Hungarian gold reserves at \$41 million. <sup>12/</sup>

Since that time, the principal use made of reserves has been for deposit with Western banks as security for private credits of six to twelve months duration, granted to finance Hungarian purchases outside the swing credit provisions of trade agreements. Typical examples of this practice may be cited. A \$2 million Egyptian credit in 1954 was fully secured by gold deposits in Switzerland, <sup>13/</sup> and \$15 million of Hungarian gold was reported on deposit with Dutch banks in 1955 as security for an unspecified amount of transit trade through Dutch ports. <sup>14/</sup> A July 1955 report lists \$69.3 million of Western credit as partially secured by gold deposits abroad. <sup>15/</sup>

Excessive and overdue swing credit under the West German trade and payments agreement was settled in 1953 and again in 1954 by Hungarian gold deposits under a repurchase agreement of limited duration.

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An extension of this time limit gave Hungary until December 1955 to repurchase a total of \$1.3 million in gold. Failure to meet this deadline was to mean forfeit of \$500,000; the remainder however, (\$800,000) is redeemable at any time during 1956. <sup>16/</sup>

How much of the gold used to secure past loans has actually been forfeited is unknown. One report in mid-October 1955 placed Hungary's currently uncommitted gold reserve at \$4.5 million. <sup>17/</sup> Outright sales of gold since that date (in October 1955 and again in January 1956) are strongly indicated and may have reduced reserves by approximately \$2.25 million. <sup>18/</sup>

How much gold is currently pledged and how much of this will be successfully redeemed cannot at present be estimated. Certainly gold stocks have suffered considerable attrition through sale and forfeiture and are by no means adequate to secure Hungary's commercial indebtedness to the West. In the absence of such security, interest charges on Western commercial loans apparently are extremely high.

c. Hungarian assets and liabilities outside the Bloc

Hungarian assets in the Free World are limited. A clearing credit on trade with Turkey, which reached \$3.6 million 30 September 1955, has since been partly liquidated - at a loss to the Hungarians - through reexport of Turkish products to hard currency purchases. <sup>19/</sup>

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In transactions outside the clearing accounts, Hungarian export firms are sometimes authorized to extend credit up to a year or even fifteen months if this is essential in effecting a sale. Since Hungary can ill afford to finance commercial transactions even for brief periods, this is avoided as much as possible. 20/

Current Hungarian purchases, on the other hand, appear to be made almost entirely on a basis of six, eight, or twelve month commercial credit. A September 1955 report indicates that 90 percent of all business was being handled in this fashion. 21/

Hungarian obligations to the West fall into two categories: those arising out of formal agreements by the Hungarian government to compensate foreign owners of prewar Hungarian securities or nationalized property and those arising out of current commercial transactions. Compensation agreements exist with Switzerland, Sweden, Belgium, and France earmarking a percentage of Hungarian exports to those countries (usually 10 percent) toward payment of indemnification claims. Agreed settlements cover only a fraction of the face value of total claims - e.g. 15 percent in the case of Sweden. 22/ Discussions currently under way may result in partial payment of British, Yugoslav, and Austrian claims. 23/ The absolute amount involved in these payments is small but constitutes a significant drain on Hungary's very limited foreign exchange earnings.

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The bulk of Hungary's obligations to the West has arisen out of a deficit on current account transactions throughout the postwar period. Some Western credits have been extended officially by the governments involved, but the greater part is private and, except where secured by gold, entails high interest rates.

Official clearing agreements ordinarily provide interest-free short-term credit within agreed "swing" limits. In transactions with trade-agreement countries, Hungarian imports commonly outrun exports so that Hungary is continually indebted to the full extent of the "swing." The clearing credit thus tends to be converted into a de facto long-term loan. <sup>24/</sup> Hungary's indebtedness on this account is said to have amounted to \$26.3 million in July 1955. <sup>25/</sup>

Intergovernmental loans other than clearing credit have been limited in extent. In 1955, both Austria and Belgium granted loans of \$1 million and \$2 million, respectively for the purchase of consumer goods, but the Austrian loan appears to have remained unutilized. <sup>26/</sup> Extensive French sales of surplus wheat in both 1954 and 1955 apparently carried very favorable credit provisions; the recent Canadian sale of 5.5 million bushels of wheat calls for the payment of 15 percent down and the balance in one year. <sup>27/</sup>

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Private loans to finance sales in Hungary far exceed the combined total of swing and other intergovernmental credits. The degree to which this is true can be illustrated by the following examples. In October 1954, French officials indicated that France's export surplus on trade with Hungary was confined entirely to transactions outside the clearing account; a few months later, Hungary's debt to France was estimated (again by official French sources) at \$20 million. <sup>28/</sup> In September 1954, Hungary's clearing deficit to Austria was \$1 million; private credits outstanding at the same time amounted to at least \$4 million. <sup>29/</sup>

Private bank credits partly secured by gold amounted - as already noted - to nearly \$70 million in mid-1955. Credits guaranteed by the Hungarian National Bank made up an additional \$124 million, and the total outstanding since that date is reported to have risen. The grand total of Hungarian indebtedness to the West, including swing debits, was reported on 21 September 1955 as \$228.9 million. <sup>30/</sup>

This patchwork of short-term loans has presumably been the only expedient available to Hungary in financing its current deficit. It has been highly unsatisfactory on many counts. Short-term credits, falling due on varying dates and in constant need of refinancing are a poor way to carry long-term debt. Credit terms are not always available when most

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desired for crucial purchases. <sup>31/</sup> The cost of such credit, moreover, has been exceedingly high; rates of 9.5 percent have been paid in West Germany and Holland, and in isolated instances, rates up to 18 percent have been reported. <sup>32/</sup> The vicious circle in which the Hungarians find themselves, however, makes it impossible for them to consolidate and refinance their debts on a low-cost long-term basis without large scale help from within the Bloc.

#### d. Value of commodity trade outside the Bloc

Free World trade statistics indicate that Hungarian imports from the Free World have exceeded exports by increasingly wide margins during the two and one-half year period ending 30 June 1955. In 1953, Hungarian imports amounted to \$82.5 million while exports stood at \$64.7 million - a deficit of \$17.8 million. In 1954, the deficit on recorded trade rose to \$33.0 million (imports: \$122.5; exports: \$89.5). During the first half of 1955, both imports and exports expanded dramatically - with exports in particular over twice as great as those recorded in the same period during 1954. The absolute amount of the deficit for the six month period, however, rose from \$33.5 million in 1954 to \$43.9 million for the first half of 1955.

Hungary's most important exports to the Free World remain foodstuffs (with Austria, West Germany, and Italy the principal customers), cotton textiles (Turkey, Malaya, Sweden, and Egypt), and transportation equipment.

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Raw materials constitute the largest single import from the Free World with especial emphasis on textile fibers of all sorts and timber products. The most significant trend during the January 1953-June 1955 period, however, has been Hungary's emergence as a net importer of grain. The first half of 1955 in particular was marked by heavy wheat and flour imports from France and Sweden, far outweighing the more traditional exports which continued to go to Austria and West Germany. 33/

Commodity trade estimates derived from the published statistics of Hungary's Free World trading partners give an unsatisfactory picture of Hungarian trade. Hungarian imports, being listed as exports by the trading partner, are shown FOB and consequently understate the delivered cost to Hungary; Hungarian exports, on the other hand, are shown as Free World imports including freight and insurance charges though Hungary in most instances did not perform these services nor receive payment for them. It is also probable that Free World exports specifically designated as shipments to Hungary significantly understate Hungary's actual imports both because of unrecorded clandestine trade and, more importantly, because of a high percentage of Hungarian purchases appear to be effected through middlemen in third countries and frequently involve considerable transshipment. Under these circumstances, Hungary frequently fails to appear as the country of destination in the statistics of the country where the goods originated.

Subject to these limitations, the statistically recorded trade of Free World countries with Hungary is appended in Tables I and II.

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Table I

## Commodity Trade of Free World with Hungary

1953-1955

(Value in thousand U.S. dollars)

Exports (FOB)	Year		Jan-June	
	1953	1954	1954	1955
TOTAL	82,473	122,452	63,625	108,079
Foodstuffs	<u>7,197</u>	<u>23,291</u>		
Wheat and Wheat flour		<u>12,026</u>		
France		5,813	1,512	19,144
Sweden		4,323	4,320	2,344
Other cereals and prep	<u>169</u>	<u>3,502</u>		<u>2,860</u>
Sugar and preparations	<u>1,058</u>	<u>479</u>		<u>1,582</u>
Crude materials	<u>31,449</u>	<u>38,007</u>		
Wood in round or semi-worked		<u>6,300</u>		
Finland		2,068	1,736	2,086
Textile fibers	<u>23,316</u>	<u>20,767</u>		
Cotton	<u>12,728</u>	<u>8,728</u>		
Turkey	6,175	2,686	2,034	1,805
Egypt	5,417	5,016	2,502	4,798
Wool and other animal hair	<u>5,421</u>	<u>6,106</u>		
United Kingdom	990	1,988	1,482	1,665
Belgium-Luxembourg	2,921	3,034	2,301	1,706
Chemicals	<u>6,052</u>	<u>11,929</u>		
Manufactured goods	<u>17,527</u>	<u>20,343</u>		
Iron and steel and semi-manufactured	<u>7,450</u>	<u>7,672</u>		
Austria	1,949	2,666	925	1,939
West Germany	4,295	3,513	1,391	2,034
Synthetic fiber manu	<u>3,052</u>	<u>3,018</u>		
Italy	1,175	776	571	1,139
Machinery and transport equip.	<u>10,566</u>	<u>2,694</u>		

Source: UN Commodity Trade Statistics

Commerce tables.

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Table II

## Commodity Trade of Free World with Hungary

1953-1955

(Value in thousand U.S. dollars)

Exports (CIF)	Year		Jan-June	
	1953	1954	1954	1955
<b>TOTAL</b>	<u>64,743</u>	<u>82,496</u>	<u>30,145</u>	<u>64,845</u>
<b>Foodstuffs</b>	<u>15,473</u>	<u>33,988</u>		
Cereals and preparations	<u>4,641</u>	<u>13,150</u>		
Austria	889	7,757	1,846	1,563
West Germany	2,351	3,630	361	213
Switzerland	996	876	330	172
Live animals, meat & prep	<u>5,427</u>	<u>12,329</u>		
Italy	1,390	3,006	674	2,950
West Germany	2,662	4,763	909	1,586
Sugar and preparations	<u>1,596</u>	<u>2,397</u>		
Austria	916	272	52	20
Egypt	---	804	103	---
Switzerland	489	880	447	91
<b>Fats and oils</b>	<u>3,177</u>	<u>4,818</u>		
Austria	854	1,554	1,187	409
West Germany	273	1,994	1,169	1,769
<b>Manufactured goods</b>	<u>17,661</u>	<u>17,233</u>		
Cotton manufactured	<u>10,514</u>	<u>7,381</u>		
Turkey	2,552	1,880	868	2,334
Malaya	1,375	499	410	45
Sweden	572	637	343	308
Egypt	652	108	46	69
transport Machinery and equipment	<u>8,217</u>	<u>11,661</u>		

Source: UN Commodity Trade Statistics.

Commerce Tables.

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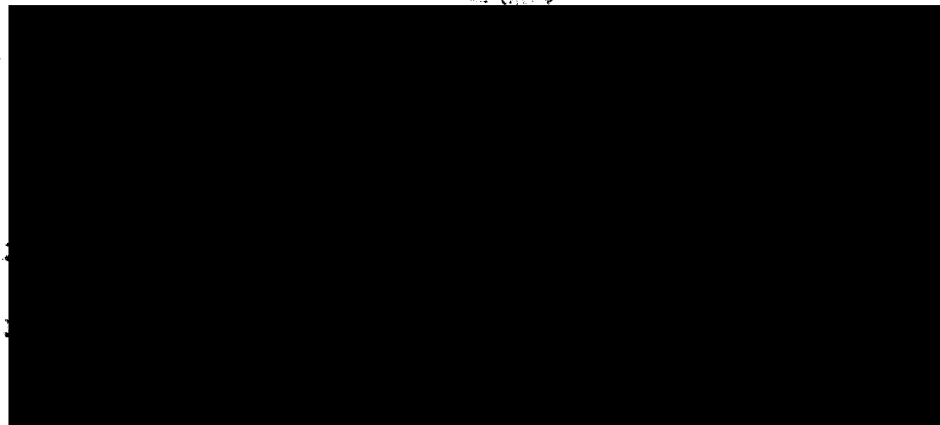
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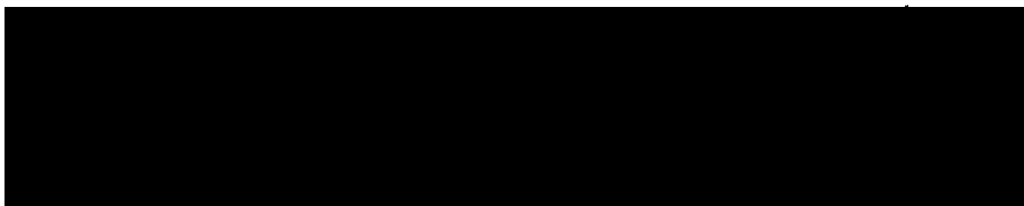
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12. National Bank of Hungary, Bank Statement, 15 Mar 50. U.

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14. State Des 624, The Hague, 26 Jan 55, Dutch-Hungarian Trade Agreement

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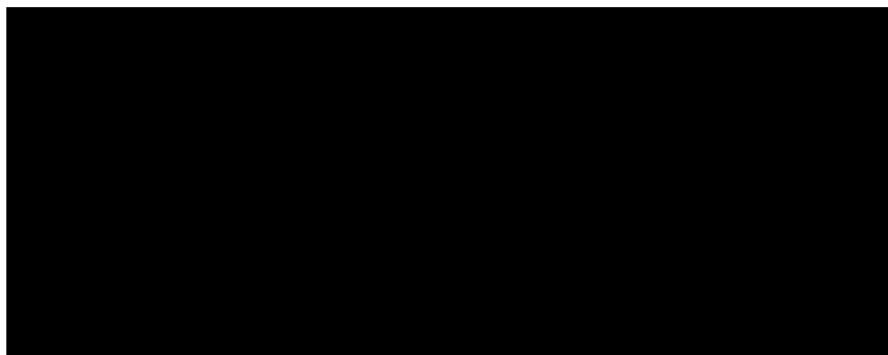
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16. State Des 2776, Bonn, 20 Apr 54, Bonn, 1954 Protocol between

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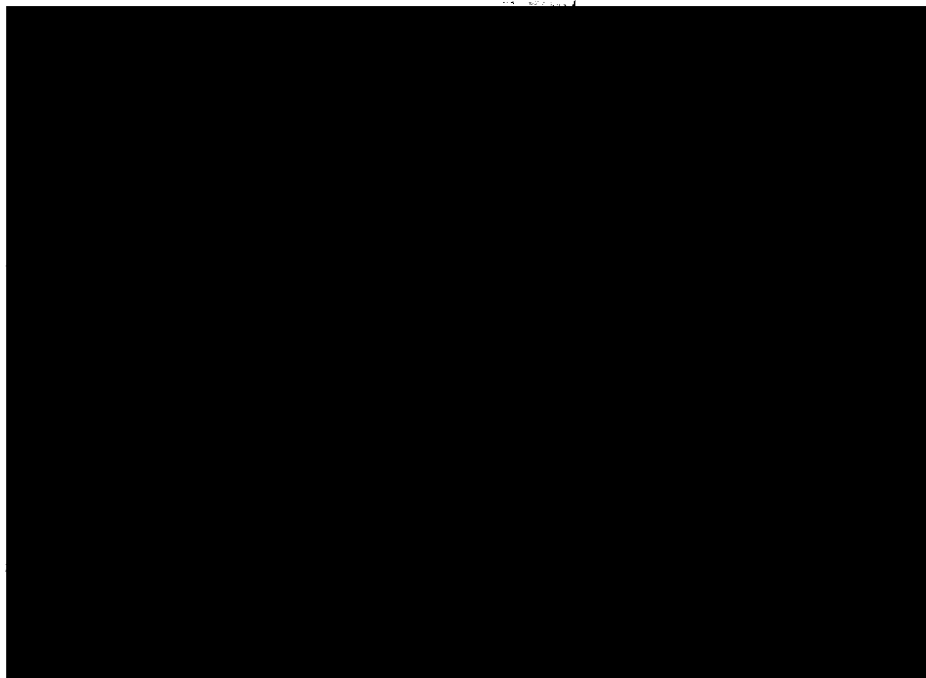
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22. State, Des 637, Brussels, 7 Jan 55, Emcon: Initialling of Trade,

Payments and nationalization agreements between Bloc and

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State, Des 1055, Stockholm, 23 Apr 51, Monthly report. U.

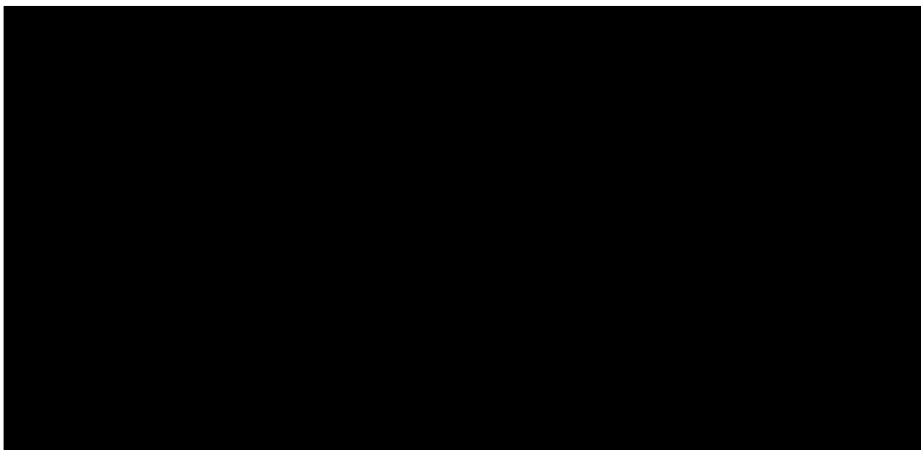
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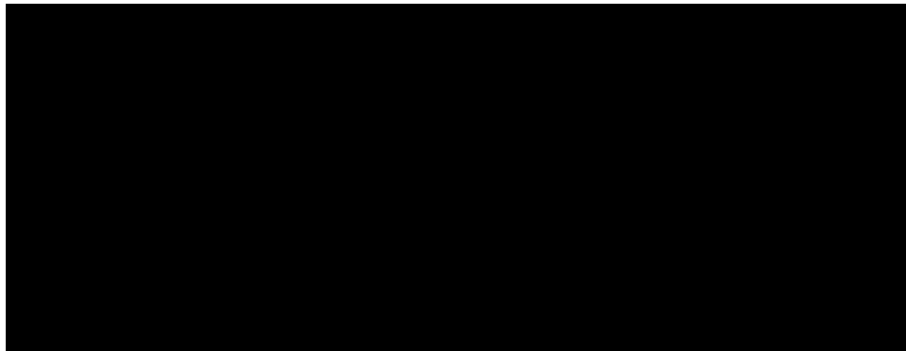






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13. Tables I and II

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